

## IDAHO'S WORLDWIDE EXPORTS CONTINUE TO GROW

From the state's largest employer to its smallest, more and more Idaho businesses are turning to foreign markets to increase their receipts.

Rising export traffic has provided an extra boost to a state economy that already is among the nation's leaders. The U.S. Department of Commerce this winter estimated that over 55,500 private-sector jobs in Idaho are tied to exports – one of every nine.

More than 15,000 of those jobs are in the traditionally higher-paying manufacturing sector. Idaho's increased participation in the export market is at least part of the reason that in the past three years manufacturing employment in the state has increased nearly 3 percent to over 63,500 this spring while nationally it has declined more than 12 percent.

While there have been fluctuations over the years, the number of Idaho companies selling to foreign customers has been steadily increasing. It hit a record 1,290 in 2004, the most recent year for which figures have been compiled, and is expected to exceed 1,300 for 2005.

That reflects the significant level of business activity in Idaho compared to other states. The Ewing Marion Kauffman Foundation recently reported that Idaho ranked fifth nationally last year in its rate of entrepreneurial activity. The foundation report estimated that 470 individuals started new business enterprises each month last year. Only Vermont, Colorado, Montana and Wyoming had higher levels.

Still, only a fraction of the more than 46,000 companies doing business in Idaho are exporting. But the growth in Idaho exporters, especially since the state began pulling out of the national recession in late 2002, is notable as is the breadth of the products these companies are shipping all over the globe.

From neighboring Canada and Mexico, Idaho companies last year sold goods to customers in such exotic places as Fiji, Togo, Papua New Guinea, Palau and French Polynesia to trouble spots like Iraq and Iran, the Sudan, Croatia, Malawi, Zambia and Zimbabwe – 152 nations in all.

Sales included dried meat to Antigua and Barbuda, books and brochures to Uganda, bandages to the Turks and Caicos Island, knives to Bosnia-Herzegovina, inflatable rafts to Mongolia, woodworking chisels to Lithuania, rifle cartridges and parts to Bulgaria, dried vegetables to Haiti, whey to Greenland and stainless steel pipe to Poland.

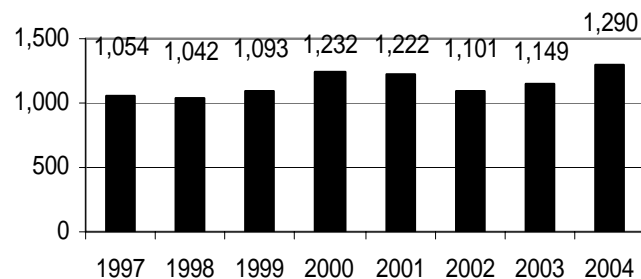
The export expansion is providing market diversity to participating businesses, giving them the prospect of tak-

ing some of the volatility out of the business cycle since rising foreign markets can offset domestic weakness and a boom at home can compensate for sluggishness abroad.

From 2003 to 2004, Idaho ranked third among the states for growth in both export value and total exporters. The increase in 2005 of nearly 12 percent pushed total value above \$3 billion for only the second time in state history.

Micron Technology Inc., the second biggest computer chip maker in the world with over 10,000 employees in Idaho, dominates Idaho's export activity, supported by an ever widening cast of other high technology companies across the state. For nine of the past 10 years, Micron has accounted for between 62 percent and 80 percent of Idaho's total export value. In 1998, high-tech exports slumped to 56.3 percent during the heat of the international battle over trade practices, foreign government support and tariffs.

FYI Chart 1: Number of Idaho Exporters, 1997-2004

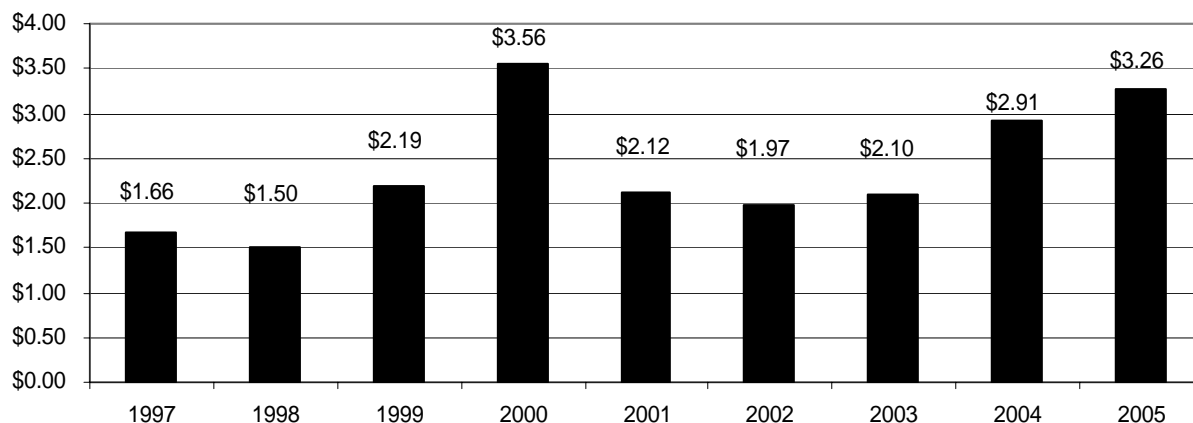


But high-tech exports have been extremely volatile. The range has been extreme over the past decade and even from year to year. In 1998, high-tech exports fell over 18 percent from over \$1 billion to under \$850 million only to jump 86 percent in 1999 to nearly \$1.6 billion, in large part due to the often unstable international microchip market. Fortunately, high-tech product producers still need the same work force to meet demand, regardless of the commodity price. Stockholders and employee bonuses take the brunt in those years.

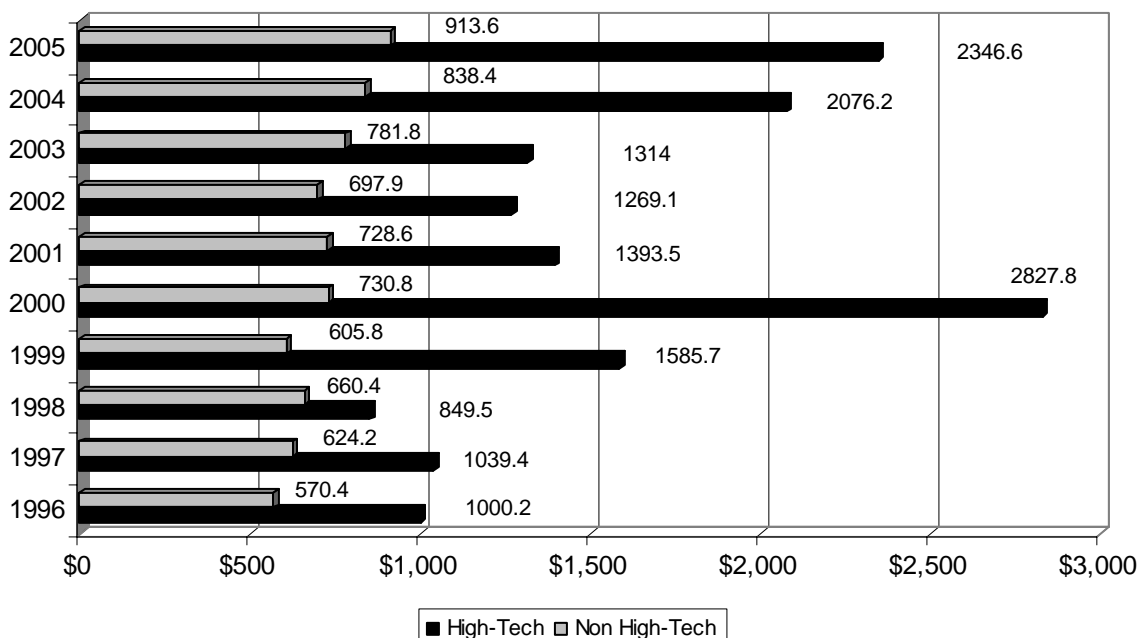
While the other product sectors fluctuate as well, the swings have not been so violent, and non high-tech exports as a group have been steadily increasing despite some dips in response to general economic conditions.

And while the Microns of Idaho may account for the lion's share of export sales, big companies with payrolls of 500 or more make up only about 18 percent of Idaho's

FYI Chart 2: Total Idaho Exports, 1997-2005 (in billions)



FYI Chart 3: Annual Idaho Exports (in millions)



exporters. The rest are smaller, the vast majority with fewer than 100 workers, according to the U.S. Department of Commerce.

It is a wide range of small companies taking advantage of these foreign markets. J. Neils Enterprises Inc. of Hauser has just a handful of employees making all terrain fans and generators for sale in Latin America, Europe, the Middle East and elsewhere.

Miskin Scraper Works Inc. of Ucon employs over 50 to make earthmoving and leveling equipment that sells in Europe, Africa, Australia and Canada.

Fusion Packaging of Nampa has fewer than 50 workers and is exporting its products to Latin America, Europe, Asia and Africa among other destinations.

And that is only three of the hundreds of companies involved in the export market.

Idaho Commerce & Labor has also tried to make it even easier for Idaho businesses, especially the smaller ones, to take advantage of the export market. Last August, Director Roger B. Madsen signed a memorandum with the Export-Import Bank of the United States that opened up the bank's export education and assistance programs to Idaho companies.

Becoming an Ex-Im Bank City/State Partner is providing Idaho entrepreneurs with experts to help them with the bank's financing products, which include export credit insurance, working capital guarantees and term financing for international buyers.

Bob Fick, Communications Manager  
317 W. Main St., Boise, ID 83735  
(208) 332-3570, ext. 3628  
E-mail: bob.fick@cl.idaho.gov

FYI Chart 4: Exports, Exporters By State, 2003-2004

State/Area	2004		2003		Percent Change	
	Exports	Exporters	Exports	Exporters	Exports	Exporters
<b>United States</b>	<b>818,775</b>	<b>231,736</b>	<b>724,771</b>	<b>225,190</b>	<b>12.97%</b>	<b>2.91%</b>
Alabama	9,037	3,035	8,340	2,916	8.36%	4.08%
Alaska	3,157	635	2,739	717	15.26%	-11.44%
Arizona	13,423	5,551	13,323	5,057	0.75%	9.77%
Arkansas	3,493	1,913	2,962	1,769	17.93%	8.14%
California	109,968	58,917	93,995	57,133	16.99%	3.12%
Colorado	6,651	4,477	6,109	4,175	8.87%	7.23%
Connecticut	8,559	5,160	8,136	5,140	5.20%	0.39%
Delaware	2,053	899	1,886	890	8.85%	1.01%
Florida	28,982	34,657	24,953	31,700	16.15%	9.33%
Georgia	19,633	10,024	16,286	9,706	20.55%	3.28%
Hawaii	405	737	368	668	10.05%	10.33%
<b>Idaho</b>	<b>2,915</b>	<b>1,290</b>	<b>2,096</b>	<b>1,163</b>	<b>39.07%</b>	<b>10.92%</b>
Illinois	30,214	17,780	26,473	17,962	14.13%	-1.01%
Indiana	19,109	6,368	16,402	6,288	16.50%	1.27%
Iowa	6,394	2,507	5,236	2,419	22.12%	3.64%
Kansas	4,931	2,294	4,553	2,265	8.30%	1.28%
Kentucky	12,992	3,233	10,734	3,267	21.04%	-1.04%
Louisiana	19,922	3,131	18,390	3,142	8.33%	-0.35%
Maine	2,432	1,668	2,188	1,653	11.15%	0.91%
Maryland	5,746	4,713	4,941	4,569	16.29%	3.15%
Massachusetts	21,837	10,117	18,663	10,245	17.01%	-1.25%
Michigan	35,625	12,138	32,941	12,419	8.15%	-2.26%
Minnesota	12,678	6,412	11,266	6,456	12.53%	-0.68%
Mississippi	3,179	1,602	2,558	1,673	24.28%	-4.24%
Missouri	8,997	4,746	7,234	4,617	24.37%	2.79%
Montana	565	870	361	845	56.51%	2.96%
Nebraska	2,316	1,506	2,724	1,508	-14.98%	-0.13%
Nevada	2,907	1,904	2,033	1,813	42.99%	5.02%
New Hampshire	2,286	2,275	1,931	2,280	18.38%	-0.22%
New Jersey	19,192	16,486	16,818	15,947	14.12%	3.38%
New Mexico	2,046	1,366	2,326	1,036	-12.04%	31.85%
New York	44,401	31,972	39,181	31,048	13.32%	2.98%
North Carolina	18,115	8,270	16,199	8,242	11.83%	0.34%
North Dakota	1,008	919	854	972	18.03%	-5.45%
Ohio	31,208	13,048	29,764	13,057	4.85%	-0.07%
Oklahoma	3,178	2,437	2,660	2,408	19.47%	1.20%
Oregon	11,172	4,754	10,357	4,914	7.87%	-3.26%
Pennsylvania	18,487	12,664	16,299	12,725	13.42%	-0.48%
Rhode Island	1,286	1,540	1,177	1,492	9.26%	3.22%
South Carolina	13,376	4,549	11,773	4,448	13.62%	2.27%
South Dakota	826	777	672	778	22.92%	-0.13%
Tennessee	16,123	5,324	12,612	5,282	27.84%	0.80%
Texas	117,245	28,300	98,846	26,518	18.61%	6.72%
Utah	4,718	2,303	4,115	2,211	14.65%	4.16%
Vermont	3,283	1,113	2,627	1,161	24.97%	-4.13%
Virginia	11,631	5,757	10,853	5,746	7.17%	0.19%
Washington	33,793	9,274	34,173	9,579	-1.11%	-3.18%
West Virginia	3,262	849	2,380	830	37.06%	2.29%
Wisconsin	12,706	6,628	11,510	6,670	10.39%	-0.63%
Wyoming	680	345	582	311	16.84%	10.93%
<b>D.C.</b>	<b>1,164</b>	<b>797</b>	<b>809</b>	<b>725</b>	<b>43.88%</b>	<b>9.93%</b>
<b>Puerto Rico</b>	<b>13,162</b>	<b>1,258</b>	<b>11,914</b>	<b>1,174</b>	<b>10.48%</b>	<b>7.16%</b>
<b>Virgin Islands</b>	<b>389</b>	<b>101</b>	<b>253</b>	<b>79</b>	<b>53.75%</b>	<b>27.85%</b>
<b>Unallocated</b>	<b>35,919</b>	<b>8,594</b>	<b>36,196</b>	<b>12,218</b>	<b>-0.77%</b>	<b>-29.66%</b>

Source: U.S. Department of Commerce

# Ask the Economist — Consumer Price Index

*Ask The Economist* is published occasionally to address common questions that readers have on the data we gather and provide. Please send questions, comments or suggestions via e-mail to [Imi@cl.idaho.gov](mailto:Imi@cl.idaho.gov) or U.S. Postal Service mail to Public Affairs, Idaho Commerce & Labor, 317 W. Main St., Boise, ID 83735.

When the April consumer price index was released by the Bureau of Labor Statistics with a 0.9 percent month-to-month increase, it was decided that we needed to be reminded what the statistic commonly known as the CPI is and how it relates to the cost of living. The CPI-U, or consumer price index for urban areas, was 201.5, up 0.9 percent from March, and the largest one month increase since August 1990. The increase was fueled by energy costs, particularly petroleum based energy.

## ***Q: How much has the cost of living changed in my area in the last year?***

Unfortunately, that is not a question that can be answered with 100 percent accuracy. No federal or state statistical agency develops changes in the cost-of-living measures for Idaho communities. Although Wells Fargo economist Kelly Matthews, based in Salt Lake City, estimates the cost of living for the Boise area, no one has developed estimates for other parts of the state.

When people want to know how much the cost of living has changed for Idaho communities, they must rely on the U.S. Consumer Price Index, published monthly by the U.S. Bureau of Labor Statistics. The CPI is the average for the metropolitan areas where the CPI survey is conducted. It is a measure of the average change over time in prices paid for a specified basket of consumer goods and services. It is widely used as an economic indicator, as a deflator so that people can see the “real,” or adjusted for inflation, change in dollar amounts, and as a common means of adjusting for changes in the cost of living including escalation clauses that automatically increase wages or other payments.

According to the Bureau of Labor Statistics, “An index is a tool that simplifies the measurement of movements in a numerical series. Most of the CPI indexes have a 1982-84 reference base. That is, the bureau sets the average index level, which represents the average price level, for the 36-month period covering the years 1982, 1983 and 1984 to be equal to 100. The bureau measures changes in relation to that figure. An index of 110, for example, means there has been a 10 percent increase in price since the reference period. Similarly an index of 90 means a 10 percent decrease.”

## ***Why the U.S. index?***

Consumer price indexes are available for only 26 metropolitan areas in the United States including two in the Pacific Northwest – Seattle-Tacoma-Bremerton in Wash-

ington and Portland-Salem in Oregon. The bureau publishes information for only three metropolitan areas – Chicago, Los Angeles, New York – every month. It publishes Seattle’s index every other month and Portland’s index every six months.

## ***Why isn’t there CPI information for smaller communities including Idaho communities?***

The answer is simple – tracking price data is extremely expensive because it requires extensive and frequent price surveys on hundreds of consumer items.

Some Idahoans use the Portland or Seattle indexes on the assumption that because Portland and Seattle are closer to Idaho their consumer prices must move most similarly to Idaho’s. That is probably not a good assumption. The coastal area of the Pacific Northwest often experiences very different price movements than the inland area. It is entirely possible for housing costs or taxes in Portland or Seattle to move differently than housing costs or taxes in Boise, Coeur d’Alene or Pocatello. The bureau warns that city indexes tend to be much more volatile – moving up or down more abruptly – than the national or regional indexes. Although the regional West CPI is less volatile than a particular city’s index, it is heavily influenced by Los Angeles, San Francisco and other metropolitan areas, where prices sometimes move very differently than Idaho’s. It is more likely that an Idaho community’s cost of living will change in a similar fashion to the U.S. average than the index of any one city or the West.

Sometimes Idaho Commerce & Labor customers argue that this comparison to the U.S. average cannot be very accurate because the cost of living in Idaho is considerably lower than in most of the U.S. While it is true that the cost of living in most Idaho communities is considerably below the national cost of living, their argument is not sound. The CPI measures the rate of increase in the cost of living, not the level of the cost of living. So even though the level of the cost of living in Idaho may be low, this does not mean that it is not increasing at about the same rate as the U.S. cost of living.

The only time that the U.S. CPI will not accurately reflect price changes in an Idaho community is when something unusual is happening to housing costs or energy costs in that community. For example, in the early 1990s, the U.S. was in a recession and housing costs were rising very slowly in most U.S. communities and even falling in a few metropolitan areas. Idaho, however, was riding the peak of the population boom. Housing costs were rising at a strong clip and were increasing much faster than the national average. At that time, it was wise to remember that the cost of living in most Idaho communities probably was rising faster than the CPI.

## Should I use CPI-U or CPI-W?

There are two types of consumer price indexes—one based on the spending patterns of **all** urban consumers, known as the CPI-U, and one based on urban wage earners and clerical workers, known as the CPI-W. According to the bureau, “The CPI-U represents about 87 percent of the total U.S. population. It is based on the expenditures of almost all residents of urban or metropolitan areas including professionals, the self-employed, the poor, the unemployed and retired persons as well as urban wage earners and clerical workers. The CPI-W is based on the expenditures of households that are included in the CPI-U definition that also meet two requirements – more than one-half of the household's income must come from clerical or wage occupations and at least one of the household's earners must have been employed for at least 37 weeks during the previous 12 months. The CPI-W's population represents about 32 percent of the total U.S. population and is a subset, or part, of the CPI-U's population.”

The CPI-U is the index that is most widely used so it is quoted in the media. It is a newer measure, introduced in the 1990s, to better reflect price changes for a wider portion of the population. Unless you have an old contract stipulating that you use CPI-W, or you are especially interested in wage earners and clerical workers, use the CPI-U index.

## So how much did the U.S. CPI increase in the last year?

Because the CPI is published every month, you can do a comparison of the changes between any month in the period from January 1913 to the most recent month. For example, the most currently available Consumer Price Index is for April 2006, when it was 201.5. A year before, in April 2005, it was 194.6. That means it increased  $(201.5/194.6 \times 100 - 100 =)$  3.5 percent in the last year.

## Avoiding a big mistake:

The most common mistake made by new CPI users is to try to calculate a rate of inflation by subtracting the index numbers from each other, but indexes are similar to compound interest rates so you must use division to calculate the rate of inflation. These mistakes can be fairly large even in the current low-inflation environment. For example,

if you subtract the April 2005 index number from the April 2006 index number, you would get 6.9 percent, suggesting that inflation was considerably higher than the normal level of recent years and much higher than it actually was between April 2005 and April 2006. Comparing the indexes over a long period of time, especially one that includes a period of high inflation like the 1970s, can make a huge difference. To see how much consumer prices have increased in the last 30 years, calculate the increase in consumer prices between April 1973 and April 2006. In April 1973, the CPI was 43.6. Incorrectly using subtraction would indicate that prices increased 157.9 percent. But using the correct formula of dividing 201.5 by 43.6 and then multiplying by 100 to turn it into a percent and then subtracting 100 to get the change shows the true rate of inflation was 362.2 percent—more than twice as fast as the incorrectly subtracted numbers suggested.

## Putting together a formal escalation clause:

Often when people draft formal escalation clauses for rental agreements, labor contracts or other purposes, they write them in such a way as to provoke future arguments about exactly what index should be used and how. Before writing such a clause, consult the Bureau of Labor Statistics pamphlet “How to Use the Consumer Price Index for Escalation” at: [www.bls.gov/cpi/cpi1998d](http://www.bls.gov/cpi/cpi1998d).

Just Ask the Economist: If you know exactly what you're looking for, it's easy to find CPI information on the Web. It's under “Income and Wages” at the Idaho Labor Market Information Web site at <http://lmi.idaho.gov> or the U.S. Bureau of Labor Statistics at <http://www.bls.gov/cpi>. If you don't know exactly what you're looking for or aren't confident about how to make calculations using the CPI, just call one of seven Idaho Commerce & Labor economists, who will be happy to help you find the information that best meets your needs. Our phone numbers and e-mail addresses are listed throughout this publication.

Kathryn Tacke, Regional Economist

1221 W. Ironwood Drive, Coeur d'Alene, ID 83814

(208) 769-1558 ext. 3984

E-mail: [kathryn.tacke@cl.idaho.gov](mailto:kathryn.tacke@cl.idaho.gov)

## WEB SITE PACKED WITH LABOR MARKET RESOURCES

Idaho's Labor Market Information Web site — <http://lmi.idaho.gov/> — is a key source for economic information about Idaho and how it compares to the U.S. on a variety of topics. The Web site has proven essential to businesses, students, job seekers, economic analysts and others. Find out for yourself.

